



A Study on Value Analysis of Selected IT Companies in India

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ABSTRACT

IT Industry plays a vital role in development of any country. The Information Technology (IT) sector is one of the fastest growing sectors in the country, envisaging dimensions of growth and globalization, achieving new milestones over the last decade. The main objective of this study is to examine the financial position of selected IT companies in India i.e. Wipro and Infotech. The present study covers the five year period of two units. In paper, researcher has been tried to analyze the financial position of both the units. The paper has been also derived some findings from the analysis.

Keywords :

Introduction

The Information Technology (IT) sector is one of the fastest growing sectors in the country, envisaging dimensions of growth and globalization, achieving new milestones over the last decade. The growth momentum attained by the overall economy since the late 1990s to a great extent can be owed to the IT sector, led by a liberalized policy regime with reduction in telecommunication costs have led to spurt in investments by MNCs as well as domestic companies in the country. Perceptible is the transformation since liberalization – India today is the world leader in information technology and business outsourcing. Correspondingly, the industry's contribution to India's GDP has gone up significantly from 1.8% in FY00 to around 5.4% in FY07. The sector has been growing at a CAGR of 30.3% since FY04.

Indian IT companies have globally established their superiority in terms of cost advantage, availability of skilled manpower and the quality of services. They have been enhancing their global delivery capabilities through a combination of organic and inorganic growth initiatives. The domestic IT market is broadly classified into the following four segments: (i) IT Services, (ii) software products, engineering and R&D services, (iii) IT-enabled Services and Business Process Outsourcing (ITeS-BPO), and (iv) Hardware. Among these Researcher has been selected the software product based companies in India i.e. WIPRO and INFOTECH.

Literature review

- Sunita sukhiya examined the value analysis of selected Oil and Gas companies in India this study was conducted a with sample of 8 major Oil and Gas companies in India
- Journal of management Vol – III, 2006, "A comparative analysis of financial performance of IOC and BPCL" by Dr. D.C. Gohil. This research paper an attempt has been

made to study the financial performance of two large units of petroleum industry i.e., IOC and BPCL. In the paper, it has been tried to analyze the assets turnover, liquidity and profitability of two units with various financial tools and statistical tools.

- Shrinivasan P. examined price discovery in NSE spot and Future markets of selected Oil and Gas industry in India.

Objectives of the study

1. To examine the financial position of selected IT companies in India.
2. To analyzed the value addition of selected IT companies.
3. To make suggestions to selected IT companies for improvement of financial position.

Hypotheses of the study

H_0 = There is no significant difference in financial position of selected IT companies.

H_1 = There is significant difference in financial position of selected IT companies.

Research Design

1. The Sample:-

The universe of the study consist all the IT companies working in India and listed in stock exchange in India. Here, researcher has selected two companies Wipro and Infotech for comparative study which are listed in BSE.

2. Tools and techniques:-

As per the nature of study following tools and techniques are used for analysis and testing of hypotheses:-

- Tool: - Ratio Analysis
- Statistical Techniques: - Mean, Standard deviation and T – test

Result and discussion

Table - 1

Value Analysis Ratio of Wipro and Infotech										
Year	2008	2009	2010	2011	2012	Mean	S. D.	T - value	Table value	H0/H1
Dividend per Share										
Wipro	6	4	6	4	6	5.2	1.10	6.38	2.306	H1
Infotech	1.20	1.50	2	1.25	2.50	1.69	0.55			
Earnings per Share										
Wipro	20.96	20.30	33.36	17.74	19.05	22.28	6.31	2.23	2.306	H0

Infotech	11.17	12.83	22.84	10.59	14.53	14.39	4.97			
Return On Capital Employed										
Wipro	23.23	26.77	23.06	22.34	21.41	23.36	2.04	3.66	2.306	H1
Infotech	10.67	17.61	15.83	14.50	21.58	16.04	4.01			
Return on Equity Shareholders, Fund										
Wipro	10.48	10.15	16.68	9.87	9.53	11.34	3	6.08	2.306	H1
Infotech	2.25	2.57	4.57	2.12	2.85	2.87	0.99			
Return on Total Shareholders, Fund										
Wipro	10.48	10.15	16.68	9.87	9.53	11.34	3	5.92	2.306	H1
Infotech	0.47	2.57	4.57	2.12	2.85	2.52	1.47			
Dividend Payout Ratio										
Wipro	28.63	19.70	17.99	22.55	31.50	22.074	6.21	3.98	2.306	H1
Infotech	10.74	11.69	8.76	11.80	11.57	10.912	1.27			

Analysis

- Dividend per Share measures that out of all profits left after payment of tax and preference dividend, a portion of this profit is retained in business and remaining is distributed among equity shareholders as dividend. The DPS of Wipro shows a fluctuating trend during the period of study. It was lowest in the year 2009 and 2011 i.e. 4 and highest in the year 2008, 2010, 2012 i.e. 6. The DPS of Infotech also having fluctuating trend during the period of study. It ranged between 1.20 in 2008 to 2.50 in 2012. So the DPS of Wipro is higher than the Infotech. Further the calculation of t – value indicates that there is significant difference in DPS ratio.
- Earnings per share measure the profit available to the equity shareholders on a per share basis. The EPS of Wipro shows the mix trend during the period of study. The ratio varied between 17.74 in 2011 to 20.96 in 2008. And Infotech Having also fluctuating trend during the period of study. The EPS of Infotech is highest in the year 2010 i.e. 22.84 and lowest in the year 2008 i.e. 11.17. It shows the EPS of Wipro is good as compared to Infotech. But the result of t – test indicates that there is significant difference in the EPS.
- Return on capital Employed is used in finance as a measure of returns that a bank is realizing from its capital employed. ROCE of Wipro was highest in the year 2009 i.e. 26.77 where as it was 21.58 in Infotech in the year 2012. So Wipro has better position. Further calculation of t – test indicates that both units are not same in ROCE.
- Return on Equity Shareholders Fund ratio measures the profitability of fund belonging to shareholder. Return on equity share holders fund of both units having fluctuating trend. From view point of mean, Return on equity share holders fund of Wipro is higher than Infotech. It can be said that the profitability of Wipro is also good. It is supported by t – value that both units are not same in Return on equity shareholders fund.
- Return on Total Shareholders Fund measures how much a company earns with specific period in relation to the amount that invested in its common stock. Return total share holders fund of both the units having fluctuating trend. In Wipro, it was highest in the year 2010 i.e. 16.68 and lowest in the year 2012 i.e. 9.53. And in Infotech, it was highest in the year 2010 i.e. 4.57 and lowest in the year 2008 i.e. 0.47.

T – Value also indicates that there is significant difference in the Return on Total shareholders fund.

- Dividend payout ratio measures the relationship between the earning available to equity share holders and the dividend distributed among them. Dividend payout ratio of Wipro shows a fluctuating trend during the period of study. The ratio moved between 17.99 in 2010 to 31.50 in 2012. In Infotech, the ratio varied between 8.76 in 2010 to 11.80 in 2011. It shows that Wipro paid maximum dividend to their shareholders. It is also supported by t – value that there is significant difference in the Dividend payout ratio of both the companies.

Findings

- Wipro has the highest return on net worth which is the sign that they are using leverage to increase profit. It is also indicating a sign of good management.
- Wipro has also the highest return on capital employed which indicates that they are realizing highest returns from its capital employed a comparison to Infotech.
- DPS and EPS of Wipro are also highest which means highest profit available to equity shareholders on per share basis in comparison to Infotech.
- Return on equity shareholders fund of Wipro is also highest. So management of Wipro is using equity shareholders fund more efficiently to increase its earning capacity in comparison to Infotech.
- Wipro has highest dividend payout ratio that means highest percentage of profit after tax and preference dividend, distributed as dividend to equity shareholders in comparison to Infotech.
- Overall profitability position of Wipro is sufficient compare to Infotech.

Suggestions

- Infotech needs to improve their financial position.
- In order to increase the profitability of the companies, suggested to control the cost of Goods sold and operating expenses and to adopt cost reduction technique.
- The management should try to utilize their production capacity fully in order to reduce factory overheads and to utilize their fix assets properly.
- The government should encourage the capital market for the IT companies.

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